



**Auditor of State
Betty Montgomery**

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

TABLE OF CONTENTS

TITLE	PAGE
Independent Accountants' Report.....	1
Management's Discussion and Analysis.....	3
Statement of Net Assets	13
Statement of Activities.....	14
Balance Sheet - Governmental Funds.....	15
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities.....	16
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	17
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (Non GAAP Budgetary Basis) – General Fund	19
Statement of Net Assets – Proprietary Fund	20
Statement of Revenues, Expenses and Changes in Net Assets - Proprietary Fund.....	21
Statement of Cash Flows – Proprietary Fund.....	22
Statement of Fiduciary Net Assets – Fiduciary Fund.....	23
Notes to the Basic Financial Statements	24
Schedule of Federal Award Expenditures.....	54
Notes to the Federal Award Expenditures Schedule.....	55
Independent Accountants' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Required by <i>Government Auditing Standards</i>	56
Independent Accountants' Report on Compliance with Requirements Applicable to each Major Program and On Internal Control Over Compliance in Accordance with OMB Circular A-133.....	58
Schedule of Findings.....	60
Schedule of Prior Audit Findings.....	62

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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Southern Local School District
Columbiana County
38095 State Route 39 East
Salineville, Ohio 43945

To the Board of Education:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southern Local School District, Columbiana County, Ohio (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Southern Local School District, Columbiana County, Ohio, as of June 30, 2005, and the respective changes in financial position and where applicable, cash flows, thereof and the budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3, the District restated fund balances due to the implementation of Technical Bulletin No. 2004-2 "Recognition of Pension and Other Post Employment Benefit Expenditures/Expenses and Liabilities by Cost Sharing Employers."

In accordance with *Government Auditing Standards*, we have also issued our report dated March 9, 2006, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the District's basic financial statements. The accompanying federal awards expenditure schedule is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. We subjected the information to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 9, 2006

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The management discussion and analysis of the Southern Local School District's (the "District") financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2005. The intent of this discussion and analysis is to look at the District's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance.

Financial Highlights

Key financial highlights for 2005 are as follows:

- In total, net assets of governmental activities decreased \$489,480 which represents a 2.94% decrease from 2004.
- General revenues accounted for \$6,664,446 in revenue or 83.93% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$1,276,223 or 16.07% of total revenues of \$7,940,669.
- The District had \$8,430,149 in expenses related to governmental activities; \$1,276,223 of these expenses was offset by program specific charges for services, grants or contributions. General revenues supporting governmental activities (primarily taxes and unrestricted grants and entitlements) of \$6,664,446 were not adequate to provide for these programs.
- The District's major governmental funds are the general fund and classroom facilities fund. The general fund had \$6,462,264 in revenues and other financing sources and \$6,246,535 in expenditures and other financing uses. During fiscal year 2005, the general fund's fund deficit decreased \$215,729 from \$228,936 to \$13,207.
- The District's classroom facilities fund had \$92,793 in revenues and \$199,641 in expenditures. During fiscal year 2005, the classroom facilities fund's fund balance decreased \$106,848 from \$212,522 to \$105,674.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the District as a financial whole, an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The *Statement of Net Assets* and *Statement of Activities* provide information about the activities of the whole District, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements also look at the District's most significant funds with all other nonmajor funds presented in total in one column. In the case of the District, the general fund and classroom facilities fund are by far the most significant funds, and the only governmental funds reported as major funds.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Reporting the District as a Whole

Statement of Net Assets and the Statement of Activities

While this document contains the large number of funds used by the District to provide programs and activities, the view of the District as a whole looks at all financial transactions and asks the question, "How did we do financially during 2005?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting will take into account all of the current year's revenues and expenses regardless of when cash is received or paid.

These two statements report the District's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the District as a whole, the *financial position* of the District has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. Non-financial factors include the District's property tax base, current property tax laws in Ohio restricting revenue growth, facility conditions, required educational programs and other factors.

In the Statement of Net Assets and the Statement of Activities, the Governmental Activities include the District's programs and services, including instruction, support services, operation and maintenance of plant, pupil transportation, extracurricular activities, and food service operations.

The District's statement of net assets and statement of activities can be found on pages 13-14 of this report.

Reporting the District's Most Significant Funds

Fund Financial Statements

The analysis of the District's major governmental funds begins on page 9. Fund financial reports provide detailed information about the District's major funds. The District uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the District's most significant funds. The District's major governmental funds are the general fund and classroom facilities fund.

Governmental Funds

Most of the District's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial assets* than can readily be converted to cash. The governmental fund financial statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* is reconciled in the basic financial statements. The basic governmental fund financial statements can be found on pages 15-19 of this report.

Proprietary Funds

The District maintains a proprietary fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District's internal service fund accounts for medical/surgical and dental self-insurance. The basic proprietary fund financial statements can be found on pages 20-22 of this report.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Reporting the District's Fiduciary Responsibilities

The District acts in a trustee capacity as an agent for individuals or other entities. These activities are reported in agency funds. The District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 23. These activities are excluded from the District's other financial statements because the assets cannot be utilized by the District to finance its operations.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. These notes to the basic financial statements can be found on pages 24-52 of this report.

The District as a Whole

The table below provides a summary of the District's net assets for 2005 and 2004.

	Net Assets	
	Governmental Activities	Governmental Activities
	<u>2005</u>	<u>2004</u>
<u>Assets</u>		
Current and other assets	\$ 6,750,001	\$ 6,601,366
Capital assets	<u>15,308,422</u>	<u>15,980,233</u>
Total assets	<u>22,058,423</u>	<u>22,581,599</u>
<u>Liabilities</u>		
Current liabilities	2,503,793	2,511,724
Long-term liabilities	<u>3,388,255</u>	<u>3,414,020</u>
Total liabilities	<u>5,892,048</u>	<u>5,925,744</u>
<u>Net Assets</u>		
Invested in capital assets, net of related debt	12,399,327	12,999,841
Restricted	4,297,808	4,231,873
Unrestricted (deficit)	<u>(530,760)</u>	<u>(575,859)</u>
Total net assets	<u>\$ 16,166,375</u>	<u>\$ 16,655,855</u>

Over time, net assets can serve as a useful indicator of a government's financial position. At June 30, 2005, the District's assets exceeded liabilities by \$16,166,375. Of this total, \$4,297,808 is restricted in use.

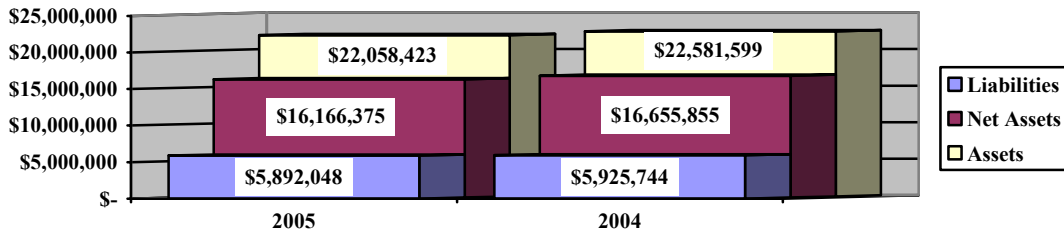
**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

At year-end, capital assets represented 69.40% of total assets. Capital assets include land, land improvements, buildings and improvements, infrastructure furniture and equipment and vehicles. Capital assets, net of related debt to acquire the assets at June 30, 2005, were \$12,399,327. These capital assets are used to provide services to the students and are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources to repay the debt must be provided from other sources, since capital assets may not be used to liquidate these liabilities.

A portion of the District's net assets, \$4,297,808, represents resources that are subject to external restriction on how they may be used.

Governmental Activities



The table below shows the change in net assets for fiscal year 2005 and 2004.

Change in Net Assets

	Governmental Activities 2005	Governmental Activities 2004
Revenues		
Program revenues:		
Charges for services and sales	\$ 254,904	\$ 252,509
Operating grants and contributions	1,019,649	948,172
Capital grants and contributions	1,670	24,254
General revenues:		
Property taxes	1,717,902	1,611,608
Grants and entitlements	4,843,597	4,822,958
Investment earnings	12,094	12,914
Other	90,853	34,837
Total revenues	7,940,669	7,707,252

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Change in Net Assets

	<u>Governmental Activities 2005</u>	<u>Governmental Activities 2004</u>
<u>Expenses</u>		
Program expenses:		
Instruction:		
Regular	\$ 3,569,659	\$ 3,218,586
Special	1,067,263	1,108,724
Vocational	197,726	265,547
Support services:		
Pupil	305,107	284,369
Instructional staff	231,547	194,632
Board of education	167,406	183,976
Administration	589,129	643,744
Fiscal	203,936	186,615
Operations and maintenance	673,468	911,278
Pupil transportation	669,228	538,640
Central	-	198
Food service operations	376,688	288,299
Operations of non-instructional services	11,213	-
Extracurricular activities	202,585	220,512
Interest and fiscal charges	<u>165,194</u>	<u>159,652</u>
Total expenses	<u>8,430,149</u>	<u>8,204,772</u>
Change in net assets	(489,480)	(497,520)
Net assets at beginning of year	<u>16,655,855</u>	<u>17,153,375</u>
Net assets at end of year	<u><u>\$ 16,166,375</u></u>	<u><u>\$ 16,655,855</u></u>

Governmental Activities

Net assets of the District's governmental activities decreased \$489,480. Total governmental expenses of \$8,430,149 were offset by program revenues of \$1,276,223 and general revenues of \$6,664,446. Program revenues supported 15.14% of the total governmental expenses.

The primary sources of revenue for governmental activities are derived from property taxes, and grants and entitlements. These revenue sources represent 82.62% of total governmental revenue.

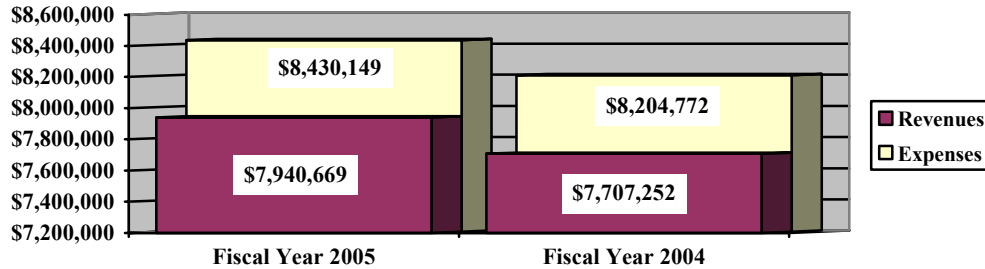
The largest expense of the District is for instructional programs. Instruction expenses totaled \$4,834,648 or 57.35% of total governmental expenses for fiscal 2005.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The graph below presents the District's governmental activities revenue and expenses for fiscal year 2005 and 2004.

Governmental Activities - Revenues and Expenses



The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. The following table shows, for governmental activities, the total cost of services and the net cost of services. That is, it identifies the cost of these services supported by tax revenue and unrestricted State grants and entitlements.

Governmental Activities

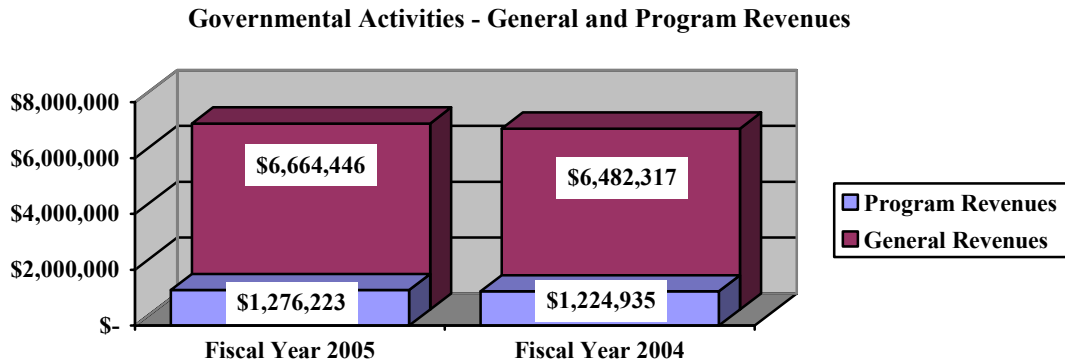
	Total Cost of Services 2005	Net Cost of Services 2005	Total Cost of Services 2004	Net Cost of Services 2004
Program expenses				
Instruction:				
Regular	\$ 3,569,659	\$ 3,427,378	\$ 3,218,586	\$ 3,097,397
Special	1,067,263	537,565	1,108,724	581,648
Vocational	197,726	197,726	265,547	265,547
Support services:				
Pupil	305,107	299,409	284,369	271,960
Instructional staff	231,547	141,940	194,632	130,762
Board of education	167,406	167,406	183,976	132,520
Administration	589,129	580,297	643,744	638,770
Fiscal	203,936	203,378	186,615	185,860
Operations and maintenance	673,468	665,798	911,278	898,697
Pupil transportation	669,228	662,861	538,640	538,398
Central	-	-	198	198
Operations of non-instructional services	11,213	6,213	-	-
Food service operations	376,688	(41,881)	288,299	(78,424)
Extracurricular activities	202,585	140,642	220,512	156,852
Interest and fiscal charges	165,194	165,194	159,652	159,652
Total expenses	<u>\$ 8,430,149</u>	<u>\$ 7,153,926</u>	<u>\$ 8,204,772</u>	<u>\$ 6,979,837</u>

The dependence upon tax and other general revenues for governmental activities is apparent, 86.10% of instruction activities are supported through taxes and other general revenues. For all governmental activities, general revenue support is 84.86%. The District's taxpayers, as a whole, are by far the primary support for the District's students.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

The graph below presents the District's governmental activities revenue for fiscal year 2005 and 2004.



The District's Funds

The District's governmental funds reported a combined fund balance of \$551,792, which is greater than last year's total of \$360,523. The June 30, 2004 fund balances have been restated as described in Note 3.A. to the basic financial statements. The schedule below indicates the fund balance and the total change in fund balance as of June 30, 2005 and 2004.

	Fund Balance (deficit) <u>June 30, 2005</u>	Restated Fund Balance (deficit) <u>June 30, 2004</u>	Increase (Decrease)	Percentage Change
General	\$ (13,207)	\$ (228,936)	\$ 215,729	94.23 %
Classroom Facilities	105,674	212,522	(106,848)	(50.28) %
Other Governmental	<u>459,325</u>	<u>376,937</u>	<u>82,388</u>	21.86 %
Total	<u>\$ 551,792</u>	<u>\$ 360,523</u>	<u>\$ 191,269</u>	53.05 %

General Fund

The District's general fund deficit decreased \$215,729 (after a restatement to the June 30, 2004, fund balance which is detailed in Note 3.A. to the basic financial statements). The decrease in fund deficit can be attributed to revenues of \$6,415,886 being greater than expenditures of \$6,186,535. Revenues exceed expenditures for fiscal year 2005 by \$229,351. The table that follows assists in illustrating the financial activities and fund balance of the general fund.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

	2005	Restated 2004	Increase (Decrease)	Percentage Change
	<u>Amount</u>	<u>Amount</u>		
<u>Revenues</u>				
Taxes	\$ 1,447,588	\$ 1,345,665	\$ 101,923	7.57 %
Tuition	6,436	9,445	(3,009)	(31.86) %
Earnings on investments	8,208	5,248	2,960	56.40 %
Intergovernmental	4,812,656	4,796,436	16,220	0.34 %
Other revenues	<u>140,998</u>	<u>74,773</u>	<u>66,225</u>	88.57 %
Total	<u>\$ 6,415,886</u>	<u>\$ 6,231,567</u>	<u>\$ 184,319</u>	2.96 %
<u>Expenditures</u>				
Instruction	\$ 3,413,179	\$ 3,454,155	\$ (40,976)	(1.19) %
Support services	2,603,963	2,671,719	(67,756)	(2.54) %
Extracurricular activities	118,234	151,122	(32,888)	(21.76) %
Capital outlay	44,022	-	44,022	100.00 %
Debt service	<u>7,137</u>	<u>-</u>	<u>7,137</u>	100.00 %
Total	<u>\$ 6,186,535</u>	<u>\$ 6,276,996</u>	<u>\$ (90,461)</u>	(1.44) %

Classroom Facilities Fund

The District's classroom facilities fund balance decreased \$106,848 from \$212,522 to \$105,674 at June 30, 2005. The decrease in fund balance can be attributed to expenditures of \$199,641 being greater than revenues of \$92,793.

General Fund Budgeting Highlights

The District's budget is prepared according to Ohio law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances. The most significant budgeted fund is the general fund.

During the course of fiscal 2005, the District amended its general fund budget several times. For the general fund, original budgeted revenues and other financing sources were \$6,261,683 and final budgeted revenues and other financing sources were \$6,309,982. Actual revenues and other financing sources for fiscal 2005 was \$6,416,560. This represents a \$106,578 increase over final budgeted revenues.

General fund original appropriations (appropriated expenditures including other financing uses) were \$6,572,822. The actual budget basis expenditures and other financing uses for fiscal year 2005 totaled \$6,322,986, which was \$249,836 less than the final budget appropriations.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Capital Assets and Debt Administration

Capital Assets

At the end of fiscal 2005, the District had \$15,308,422 invested in land, land improvements, buildings and improvements, infrastructure, furniture and equipment and vehicles. This entire amount is reported in governmental activities. The following table shows fiscal 2005 balances compared to 2004:

**Capital Assets at June 30
(Net of Depreciation)**

	Governmental Activities	
	2005	2004
Land	\$ 84,670	\$ 84,670
Land improvements	610,707	648,102
Building and improvements	14,021,054	14,549,761
Furniture and equipment	217,870	251,320
Vehicles	241,257	310,020
Infrastructure	132,864	136,360
Total	\$ 15,308,422	\$ 15,980,233

The overall decrease in capital assets of \$671,811 is due to depreciation expense in the fiscal year.

See Note 8 to the basic financial statements for additional information on the District's capital assets.

Debt Administration

At June 30, 2005, the District had \$2,915,714 in general obligation bonds outstanding. Of this total, \$85,000 is due within one year and \$2,830,714 is due within greater than one year. The following table summarizes the bonds and loans outstanding.

Outstanding Debt, at Year End

	Governmental Activities <u>2005</u>	Governmental Activities <u>2004</u>
General obligation bonds	\$ 2,915,714	\$ 2,980,392
Total	\$ 2,915,714	\$ 2,980,392

At June 30, 2005, the District's overall legal debt margin was \$3,546,786, and an unvoted debt margin of \$68,827.

See Note 10 to the basic financial statements for additional information on the District's debt administration.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005
UNAUDITED

Current Financial Related Activities

The District faces many challenges in the future. As the preceding information shows, the District relies heavily upon grants and entitlements and property taxes. Since future grant and entitlement revenue is expected to decrease, the reliance upon local taxes is increasingly important. The District may also face a situation where an operating levy may have to be passed by District voters in the near future in order for the District to obtain the necessary funds to meet its operating expenses.

Another challenge facing the District is the construction of an administrative office for the Superintendent, Treasurer, and staff. The District just completed a 14 million dollar project that closed two schools and housed all their students at one site. The OSFC does not allow for administrative offices, so the current offices are located behind the new school building in a doublewide trailer. The Board is currently looking into either renovating an old house that the District owns next to the new facility or demolishing the house and building or purchasing a new modular unit. The Board is expecting the cost to be anywhere from \$50,000 to \$120,000, and would have to borrow the funds in order to complete the project.

The last challenge facing the District is the future of state funding. The State of Ohio was found by the Ohio Supreme Court in March 1997 to be operating an unconstitutional educational system, one that was neither "adequate" nor "equitable". Since 1997, the State has directed its tax revenue growth toward school districts with little property tax wealth. On December 11, 2002, the Ohio Supreme Court issued its opinion regarding the State's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school-funding plan is unconstitutional. At this time, the District is unable to determine what effect, if any, this decision will have on its future State funding and on its financial operations.

The District has anticipated a lower increase in funding due to declining enrollment in future State revenue. The District loses over 170 students to open enrollment and it could lose more in the future to cyber schools. When these students leave, the State funding is also decreased. The District's main challenge is how to stop this declining enrollment. With decreased State funding, cost cutting measures are inevitable unless other revenue sources become available (i.e.: operating tax levy).

The District's system of budgeting and internal controls is well regarded. All of the District's financial abilities will be needed to meet the financial challenges of the future.

Contacting the District's Financial Management

This financial report is designed to provide our citizen's taxpayers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact Ms. Doreen Marshall, Treasurer, Southern Local School District, 38095 State Route 39, Salineville, Ohio 43945.

BASIC
FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF NET ASSETS
JUNE 30, 2005

	<u>Governmental Activities</u>
Assets:	
Equity in pooled cash and cash equivalents.	\$ 1,280,567
Cash with fiscal agent.	71,836
Cash with escrow agent	355
Receivables:	
Taxes	1,775,891
Accounts	996
Intergovernmental	3,601,020
Prepayments	8,414
Materials and supplies inventory	10,922
Capital assets:	
Land	84,670
Depreciable capital assets, net	15,223,752
Capital assets, net.	<u>15,308,422</u>
 Total assets.	 <u>22,058,423</u>
Liabilities:	
Accounts payable.	3,866
Accrued wages and benefits	641,971
Pension obligation payable.	141,307
Intergovernmental payable	42,737
Deferred revenue	1,585,011
Accrued interest payable	11,508
Claims payable.	77,393
Long-term liabilities:	
Due within one year.	122,812
Due within more than one year	3,265,443
 Total liabilities	 <u>5,892,048</u>
Net Assets:	
Invested in capital assets, net of related debt.	12,399,327
Restricted for:	
Capital projects.	3,838,514
Debt service.	275,432
State funded programs.	19,858
Federally funded programs.	9,110
Student activities.	11,636
Other purposes	143,258
Unrestricted (deficit)	<u>(530,760)</u>
 Total net assets	 <u><u>\$ 16,166,375</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
Instruction:					
Regular	\$ 3,569,659	\$ 67,297	\$ 74,984	\$ -	\$ (3,427,378)
Special	1,067,263	-	529,698	-	(537,565)
Vocational	197,726	-	-	-	(197,726)
Support services:					
Pupil	305,107	-	5,698	-	(299,409)
Instructional staff	231,547	-	89,607	-	(141,940)
Board of education	167,406	-	-	-	(167,406)
Administration	589,129	-	8,832	-	(580,297)
Fiscal	203,936	-	558	-	(203,378)
Operations and maintenance	673,468	-	6,000	1,670	(665,798)
Pupil transportation	669,228	-	6,367	-	(662,861)
Operation of non-instructional services:					
Food service operations	376,688	125,664	292,905	-	41,881
Other non-instructional services	11,213	-	5,000	-	(6,213)
Extracurricular activities	202,585	61,943	-	-	(140,642)
Interest and fiscal charges	165,194	-	-	-	(165,194)
Total governmental activities	\$ 8,430,149	\$ 254,904	\$ 1,019,649	\$ 1,670	(7,153,926)

General Revenues:

Property taxes levied for:	
General purposes	1,450,428
Debt service	239,435
Capital projects	28,039
Grants and entitlements not restricted to specific programs	4,843,597
Investment earnings	12,094
Miscellaneous	90,853
Total general revenues	6,664,446
Change in net assets	(489,480)
Net assets at beginning of year	16,655,855
Net assets at end of year	\$ 16,166,375

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets:				
Equity in pooled cash and cash equivalents	\$ 486,527	\$ 105,319	\$ 545,463	\$ 1,137,309
Cash with escrow agent	-	355	-	355
Receivables:				
Taxes	1,489,073	-	286,818	1,775,891
Accounts	960	-	36	996
Intergovernmental	-	3,564,429	36,591	3,601,020
Interfund receivable	21,442	-	-	21,442
Prepayments	8,414	-	-	8,414
Materials and supplies inventory	2,958	-	7,964	10,922
Restricted assets:				
Equity in pooled cash and cash equivalents	143,258	-	-	143,258
Total assets	<u>\$ 2,152,632</u>	<u>\$ 3,670,103</u>	<u>\$ 876,872</u>	<u>\$ 6,699,607</u>
Liabilities:				
Accounts payable	\$ 3,658	\$ -	\$ 208	\$ 3,866
Accrued wages and benefits	554,381	-	87,590	641,971
Compensated absences payable	14,169	-	-	14,169
Pension obligation payable.	117,986	-	23,321	141,307
Intergovernmental payable.	37,475	-	5,262	42,737
Interfund payable.	-	-	21,442	21,442
Deferred revenue.	1,438,170	3,564,429	279,724	5,282,323
Total liabilities	<u>2,165,839</u>	<u>3,564,429</u>	<u>417,547</u>	<u>6,147,815</u>
Fund Balances:				
Reserved for encumbrances	10,096	19,715	35,400	65,211
Reserved for materials and supplies inventory.	2,958	-	7,964	10,922
Reserved for prepayments	8,414	-	-	8,414
Reserved for property tax unavailable for appropriation	50,903	-	9,822	60,725
Reserved for BWC refunds.	24,797	-	-	24,797
Reserved for capital acquisition.	118,461	-	-	118,461
Reserved for debt service.	-	-	259,229	259,229
Unreserved, undesignated (deficit), reported in:				
General fund	(228,836)	-	-	(228,836)
Special revenue funds.	-	-	(15,288)	(15,288)
Capital projects funds.	-	85,959	162,198	248,157
Total fund balances (deficit).	<u>(13,207)</u>	<u>105,674</u>	<u>459,325</u>	<u>551,792</u>
Total liabilities and fund balances	<u>\$ 2,152,632</u>	<u>\$ 3,670,103</u>	<u>\$ 876,872</u>	<u>\$ 6,699,607</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2005

Total governmental fund balances		\$ 551,792
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		15,308,422
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds.		
Taxes	\$ 130,155	
Intergovernmental revenue	3,567,157	
Total		3,697,312
An internal service fund is used by management to charge the costs of health and dental insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities on the statement of net assets.		(5,557)
Accrued interest payable is not due and payable in the current period and therefore is not reported in the funds.		(11,508)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences	419,277	
Capital lease obligation	39,095	
General obligation bonds payable	2,915,714	
Total		(3,374,086)
Net assets of governmental activities		\$ 16,166,375

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>General</u>	<u>Classroom Facilities</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
From local sources:				
Taxes	\$ 1,447,588	\$ -	\$ 266,116	\$ 1,713,704
Tuition.	6,436	-	-	6,436
Charges for services.	-	-	125,664	125,664
Earnings on investments.	8,208	2,820	85	11,113
Extracurricular.	-	-	61,943	61,943
Classroom materials and fees.	5,550	-	-	5,550
Other local revenues.	135,448	770	7,591	143,809
Intergovernmental - State.	4,812,656	89,203	175,468	5,077,327
Intergovernmental - Federal	-	-	885,111	885,111
Total revenue	<u>6,415,886</u>	<u>92,793</u>	<u>1,521,978</u>	<u>8,030,657</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,683,387	-	118,406	2,801,793
Special.	533,687	-	541,060	1,074,747
Vocational.	196,105	-	-	196,105
Support services:				
Pupil.	304,806	-	6,364	311,170
Instructional staff	131,579	-	92,929	224,508
Board of education	167,147	-	-	167,147
Administration.	569,857	-	8,926	578,783
Fiscal	196,556	-	6,840	203,396
Operations and maintenance.	631,884	-	30,261	662,145
Pupil transportation	602,134	-	6,051	608,185
Operation of non-instructional services:				
Food service operations	-	-	373,875	373,875
Other non-instructional services.	-	-	11,213	11,213
Extracurricular activities.	118,234	-	77,507	195,741
Facilities acquisition and construction	-	199,641	-	199,641
Capital outlay	44,022	-	-	44,022
Debt service:				
Principal retirement	4,927	-	80,000	84,927
Interest and fiscal charges	2,210	-	146,157	148,367
Total expenditures	<u>6,186,535</u>	<u>199,641</u>	<u>1,499,589</u>	<u>7,885,765</u>
Excess of revenues over (under) expenditures	<u>229,351</u>	<u>(106,848)</u>	<u>22,389</u>	<u>144,892</u>
Other financing sources (uses):				
Transfers in	1	-	60,000	60,001
Transfers (out).	(60,000)	-	(1)	(60,001)
Sale of capital assets.	2,355	-	-	2,355
Capital lease transaction.	44,022	-	-	44,022
Total other financing sources (uses)	<u>(13,622)</u>	<u>-</u>	<u>59,999</u>	<u>46,377</u>
Net change in fund balances	215,729	(106,848)	82,388	191,269
Fund balance (deficit) at beginning of year (restated).	<u>(228,936)</u>	<u>212,522</u>	<u>376,937</u>	<u>360,523</u>
Fund balance (deficit) at end of year	<u>\$ (13,207)</u>	<u>\$ 105,674</u>	<u>\$ 459,325</u>	<u>\$ 551,792</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds	\$	191,269
<i>Amounts reported for governmental activities in the statement of activities are different because:</i>		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.		
Depreciation expense	\$ (671,811)	
Total		(671,811)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Taxes	4,198	
Intergovernmental	(97,522)	
Total		(93,324)
Repayment of bond and lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.		
		84,927
Proceeds of capital leases are recorded as revenue in the funds, however on the statement of activities, they are not reported as revenues as they increase the liabilities on the statement of net assets.		
		(44,022)
Governmental funds report expenditures for interest when it is due. In the statement of activities, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is due to the accrued interest on bonds and additional accumulated accreted interest on the capital appreciation bonds.		
Accrued interest	(1,505)	
Accreted interest	(15,322)	
Total		(16,827)
Some expenses reported in the statement of activities, such as compensated absences and pension obligations, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.		
		232
The internal service fund used by management to charge the costs of insurance to individual funds is not reported in the district-wide statement of activities. Governmental fund expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service fund is allocated among the governmental activities.		
		60,076
Change in net assets of governmental activities	\$	(489,480)

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
From local sources:				
Taxes	\$ 1,407,725	\$ 1,408,952	\$ 1,442,545	\$ 33,593
Tuition	6,281	6,286	6,436	150
Earnings on investments	8,010	8,017	8,208	191
Classroom materials and fees	4,831	4,835	4,950	115
Other local revenues	114,256	114,355	117,082	2,727
Intergovernmental - State	4,696,493	4,743,429	4,812,656	69,227
Total revenue	<u>6,237,596</u>	<u>6,285,874</u>	<u>6,391,877</u>	<u>106,003</u>
Expenditures:				
Current:				
Instruction:				
Regular	2,689,485	2,694,483	2,689,066	5,417
Special	638,156	563,070	540,140	22,930
Vocational	212,481	220,776	200,590	20,186
Support services:				
Pupil	312,947	325,165	316,101	9,064
Instructional staff	154,405	160,433	135,288	25,145
Board of education	184,507	191,710	172,888	18,822
Administration	608,035	631,773	580,582	51,191
Fiscal	206,389	214,446	197,068	17,378
Operations and maintenance	679,096	667,503	625,362	42,141
Pupil transportation	675,810	702,194	664,632	37,562
Extracurricular activities	115,325	119,827	119,827	-
Total expenditures	<u>6,476,636</u>	<u>6,491,380</u>	<u>6,241,544</u>	<u>249,836</u>
Excess of revenues over (under) expenditures	<u>(239,040)</u>	<u>(205,506)</u>	<u>150,333</u>	<u>355,839</u>
Other financing sources (uses):				
Refund of prior year expenditure	13,282	13,294	13,611	317
Transfers in	1	1	1	-
Transfers (out)	(75,550)	(60,000)	(60,000)	-
Advances in	8,506	8,513	8,716	203
Advances (out)	(20,636)	(21,442)	(21,442)	-
Sale of capital assets	2,298	2,300	2,355	55
Total other financing sources (uses)	<u>(72,099)</u>	<u>(57,334)</u>	<u>(56,759)</u>	<u>575</u>
Net change in fund balance	(311,139)	(262,840)	93,574	356,414
Fund balance at beginning of year	447,776	447,776	447,776	-
Prior year encumbrances appropriated	71,726	71,726	71,726	-
Fund balance (deficit) at end of year	<u>\$ 208,363</u>	<u>\$ 256,662</u>	<u>\$ 613,076</u>	<u>\$ 356,414</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2005

	Governmental Activities - Internal Service Fund
Assets:	
Cash with fiscal agent	\$ 71,836
Total assets	<u>71,836</u>
Liabilities:	
Claims payable	<u>77,393</u>
Total liabilities	<u>77,393</u>
Net assets:	
Unrestricted (deficit)	<u>(5,557)</u>
Total net assets (deficit)	<u><u>\$ (5,557)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Governmental Activities - Internal Service Fund
Operating revenues:	
Charges for services.	<u>\$ 1,271,573</u>
Total operating revenues	<u>1,271,573</u>
Operating expenses:	
Purchased services	38,823
Claims	<u>1,173,655</u>
Total operating expenses	<u>1,212,478</u>
Operating income	<u>59,095</u>
Nonoperating revenues:	
Interest revenue	<u>981</u>
Total nonoperating revenues	<u>981</u>
Change in net assets.	60,076
Net assets (deficit) at beginning of year. .	<u>(65,633)</u>
Net assets (deficit) at end of year	<u><u>\$ (5,557)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

	Governmental Activities - Internal Service Fund
Cash flows from operating activities:	
Cash received from charges for services	\$ 1,271,573
Cash payments for purchased services	(38,823)
Cash payments for claims.	<u>(1,177,172)</u>
Net cash provided by operating activities	<u>55,578</u>
Cash flows from investing activities:	
Interest received.	<u>981</u>
Net cash provided by investing activities	<u>981</u>
Net increase in cash and cash equivalents	56,559
Cash with fiscal agent at beginning of year	<u>15,277</u>
Cash with fiscal agent at end of year.	<u><u>\$ 71,836</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income.	\$ 59,095
Changes in assets and liabilities:	
Decrease in claims payable	<u>(3,517)</u>
Net cash provided by operating activities	<u><u>\$ 55,578</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005

	<u>Agency</u>
Assets:	
Equity in pooled cash and cash equivalents	\$ 22,704
Total assets.	<u>\$ 22,704</u>
Liabilities:	
Due to students	\$ 22,704
Total liabilities	<u>\$ 22,704</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 1 - DESCRIPTION OF THE SCHOOL DISTRICT

Southern Local School District (the "District") is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The District ranks as the 522nd largest by total enrollment among the 614 public school districts in the state. The District operates under a locally-elected five-member Board form of government. Each member is elected to a four-year term. The District provides educational services as authorized by its charter and further mandated by state and/or federal agencies. The Board of Education controls the District's 4 instructional/support facilities staffed by 41 classified employees and 73 certificated employees who provide services to 887 students and other community members.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental activities and to its proprietary fund provided they do not conflict with or contradict GASB pronouncements. The District's significant accounting policies are described below.

A. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organizations that are included to ensure that the basic financial statements of the District are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the District. For the District, this includes general operations, foods service, preschool and student related activities of the District.

Component units are legally separate organizations for which the District is financially accountable. The District is financially accountable for an organization if the District appoints a voting majority of the organizations' government board and (1) the District is able to significantly influence the programs or services performed or provided by the organization; or (2) the District is legally entitled to or can otherwise access the organization's resources; (3) the District is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to, the organization; or (4) the District is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the District in that the District approves the budget, the issuance of debt or the levying of taxes. Based upon the application of these criteria, the District has no component units. The basic financial statements of the reporting entity include only those of the District (the primary government). The following organizations are described due to their relationship to the District:

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

JOINTLY GOVERNED ORGANIZATIONS

Ohio Mid-Eastern Regional Education Service Agency (OME-RESA)

OME-RESA was created as a regional council of governments pursuant to state statutes. OME-RESA provides financial accounting services, an educational management information system, cooperative purchases services, and legal services to member districts. OME-RESA has 11 participating counties consisting of Belmont, Carroll, Columbiana, Coshocton, Guernsey, Harrison, Holmes, Jefferson, Muskingum, Noble, and Tuscarawas Counties. Each member district pays an annual fee for services provided by OME-RESA.

OME-RESA operates under the direction of a Board consisting of one representative from each of the participating school districts' elected boards, which possesses its own budgeting and taxing authority. The Jefferson County Educational Service Center serves as the fiscal agent and receives funding from the State Department of Education. To obtain financial information, write to the Ohio Mid-Eastern Regional Educational Service Agency, Karen Blake, Treasurer, 2023 Sunset Boulevard, Steubenville, Ohio, 43952.

Lincoln Way Special Education Regional Resource Center (LWSERRC)

LWSERRC is a special education regional resource center, which selects its own board, adopts its own budget and receives direct federal and state grants for its operation. The jointly governed organization was formed for the purpose of initiating, expanding and improving special education programs and services for children with disabilities and their parents.

LWSERRC is governed by a governing board of 5 members made up of representatives from each of the local participating school districts. LWSERRC serves 5 local school districts as well as 6 non-local school districts. The degree of control exercised by any participating school district is limited to its representation on the Board. Financial information can be obtained by contacting the Treasurer at the Salem City School District, 1226 East State Street, Salem, Ohio 44460.

Columbiana County Career Center

The Columbiana County Career Center is a distinct political subdivision of the State of Ohio operated under the direction of a Board consisting of one representative from each of the 9 participating school districts' elected boards, which possesses its own budgeting and taxing authority. To obtain financial information, write to the Columbiana County Career Center, Kathy Bosco who serves as Treasurer, 9364 State Route 45, Lisbon, Ohio 44432.

PUBLIC ENTITY RISK POOLS

Columbiana County School Employees Insurance Consortium (the "Consortium")

The Consortium is a claims servicing pool comprised of seven Columbiana County School Districts. The Consortium is governed by an assembly, which consists of one representative from each participating school district (usually the superintendent or designee). The assembly exercises control over the operation of the Consortium. All Consortium revenues are generated from charges for services.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Ohio Association of School Business Officials

The District participates in a group rating plan (GRP) for workers' compensation as established under Section 4123.29 of the Ohio Revised Code. Participation in the GRP is limited to school districts that can meet the GRP's selection criteria. The firm of Sheakley Uniservice Inc. provides administrative, cost control and actuarial services to the GRP. Each year, the District pays an enrollment fee to the GRP to cover the costs of administering the program.

B. Fund Accounting

The District uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary and fiduciary.

GOVERNMENTAL FUNDS

Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

General Fund - The general fund is used to account for all financial resources except those required to be accounted for in another fund. The general fund balance is available for any purpose provided it is expended or transferred according to the general laws of Ohio.

Classroom Facilities Fund - The classroom facilities capital projects fund is used to account for monies received and expended in connection with contracts entered into by the District and the Ohio Department of Education for the building and equipping of classroom facilities.

Other governmental funds of the District are used to account for (a) the accumulation of resources for, and payment of, general long-term debt principal, interest and related costs; (b) financial resources to be used for the acquisition, construction, or improvement of capital facilities other than those financed by proprietary funds; and (c) for grants and other resources whose use is restricted to a particular purpose.

PROPRIETARY FUNDS

Proprietary funds are used to account for the District's ongoing activities which are similar to those often found in the private sector. The District has no enterprise funds. The following is a description of the District's internal service fund:

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Internal Service Fund - The internal service fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the district, or to other governments, on a cost-reimbursement basis. The only internal service fund of the District accounts for a self-insurance program which provides medical/surgical and dental benefits to employees.

FIDUCIARY FUNDS

Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds and agency funds. Trust funds are used to account for assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. The District has no trust funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student activities.

C. Basis of Presentation and Measurement Focus

Government-wide Financial Statements - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal service fund operating activity is eliminated to avoid overstatement of revenues and expenses.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues not classified as program revenues are presented as general revenues of the District.

The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the District are included on the statement of net assets.

Fund Financial Statements - Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column, and all nonmajor funds are aggregated into one column. The internal service fund is presented in a single column on the face of the proprietary fund statements. Fiduciary funds are reported by fund type.

All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Like the government-wide statements, the internal service fund is accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of this fund are included on the statement of fund net assets. The statement of changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operation. The principal operating revenues of the District's internal service fund is charges for sales and services. Operating expenses for internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Agency funds do not report a measurement focus as they do not report operations.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within sixty days of fiscal year-end.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied (see Note 6).

Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: property taxes available as an advance, interest, tuition, grants, student fees and rentals.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of June 30, 2005, but which were levied to finance fiscal year 2006 operations, have been recorded as deferred revenue. Grants and entitlements received before the eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the Statement of Revenues, Expenditures and Changes in Fund Balances as an expenditure with a like amount reported as intergovernmental revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocation of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Budgets

The District is required by state statute to adopt an annual appropriated cash basis budget for all funds. The specific timetable for fiscal year 2005 is as follows:

1. Prior to January 15 of the preceding year, the Superintendent and Treasurer submit to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing for all funds. Public hearings are publicized and conducted to obtain taxpayers' comments. The expressed purpose of this budget document is to reflect the need for existing (or increased) tax rates.
2. By no later than January 20, the board-adopted budget is filed with the Columbiana County Budget Commission for tax rate determination.
3. Prior to April 1, the Board of Education accepts, by formal resolution, the tax rates as determined by the Budget Commission and receives the Commission's Certificate of Estimated Resources which states the projected revenue of each fund. Prior to June 30, the District must revise its budget so that total contemplated expenditures from any fund during the ensuing year will not exceed the amount stated in the Certificate of Estimated Resources. The revised budget then serves as a basis for the appropriation measure. On or about July 1, the Certificate is amended to include any unencumbered balances from the preceding year as reported by the District Treasurer. The Certificate may be further amended during the year if projected increases or decreases in revenue are identified by the District Treasurer. The budget figures, as shown in the accompanying budgetary statement, reflect the amounts set forth in the original and final Amended Certificate issued for fiscal year 2005.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

4. By July 1, the annual appropriation resolution is legally enacted by the Board of Education at the fund level of expenditures, which is the legal level of budgetary control. State statute permits a temporary appropriation to be effective until no later than October 1 of each year. Although the legal level of budgetary control was established at the fund level of expenditures, the District has elected to present budgetary comparison statements at the fund and function level of expenditures. Resolution appropriations by fund must be within the estimated resources as certified by the County Budget Commission and the total of expenditures and encumbrances may not exceed the appropriation totals.
5. Any revisions that alter the total of any fund appropriation must be approved by the Board of Education.
6. Formal budgetary integration is employed as a management control device during the year for all funds consistent with the general obligation bond indenture and other statutory provisions. All funds completed the year within the amount of their legally authorized cash basis appropriation.
7. Appropriations amounts are as originally adopted, or as amended by the Board of Education through the year by supplemental appropriations, which either reallocated or increased the original appropriated amounts. All supplemental appropriations were legally enacted by the Board prior to June 30, 2005, however, none of these amendments were significant. The budget figures, as shown in the accompanying budgetary statement, reflect the original and final appropriation amounts including all amendments and modifications.
8. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward to the succeeding fiscal year and need not be reappropriated. Expenditures plus encumbrances may not legally exceed budgeted appropriations at the fund level.

F. Cash and Investments

To improve cash management, cash received by the District is pooled in a central bank account. Monies for all funds, including proprietary funds, are maintained in this pool. Individual fund integrity is maintained through the District's records. Each fund's interest in the pool is presented as "Equity in Pooled Cash and Cash Equivalents" on the basic financial statements.

During fiscal year 2005, investments were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio) and repurchase agreements. Except for nonparticipating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts such as repurchase agreements are reported at cost.

The District has invested funds in STAR Ohio during fiscal 2005. STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their funds for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on June 30, 2005.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Under existing Ohio statutes all investment earnings are assigned to the general fund unless statutorily required to be credited to a specific fund. Interest revenue credited to the general fund during fiscal year 2005 amounted to \$8,208, which includes \$3,073 assigned from other funds.

For presentation on the basic financial statements, investments of the cash management pool and investments with original maturities of three months or less at the time they are purchased by the District are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the District's investment account at year-end is provided in Note 4.

G. Inventory

On government-wide and fund financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used. Inventories are accounted for using the purchase method on the fund financial statements and using the consumption method on the government-wide statements.

On the fund financial statements, reported materials and supplies inventory is equally offset by a fund balance reserve in the governmental funds which indicates that it does not constitute available spendable resources even though it is a component of net current assets.

Inventory consists of expendable supplies held for consumption, donated food and purchased food.

H. Capital Assets

General capital assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated capital assets are recorded at their fair market values as of the date received. During fiscal year 2005, the District maintained its capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

All reported capital assets except land are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	Governmental Activities <u>Estimated Lives</u>
Land improvements	20 years
Buildings and improvements	20 - 50 years
Infrastructure	50 years
Furniture and equipment	5 - 20 years
Vehicles	8 years

I. Compensated Absences

Compensated absences of the District consist of vacation leave and severance liability to the extent that payments to the employee for these absences are attributable to services already rendered and are not contingent on a specific event that is outside the control of the District and the employee.

In accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences", a liability for vacation leave is accrued if a) the employees' rights to payment are attributable to services already rendered; and b) it is probable that the employer will compensate the employees for the benefits through paid time off or other means, such as cash payment at termination or retirement. A liability for severance is accrued using the vesting method; i.e., the liability is based on the sick leave accumulated at June 30, 2005, by those employees who are currently eligible to receive termination (severance) payments, as well as those employees expected to become eligible in the future. For purposes of establishing a liability for severance on employees expected to become eligible to retire in the future, all employees age fifty or greater with at least ten years of service and all employees with at least twenty years of service at any age were considered expected to become eligible to retire in accordance with GASB Statement No. 16.

The total liability for vacation and severance payments has been calculated using pay rates in effect at June 30, 2005, and reduced to the maximum payment allowed by labor contract and/or statute, plus any applicable additional salary related payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements, compensated absences are recognized as liabilities and expenditures as payments come due each period upon the occurrence of employee resignations and retirements.

J. Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from the internal service fund are reported on the proprietary fund financial statements.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds are recognized as a liability on the fund financial statements when due.

K. Fund Balance Reserves

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances, materials and supplies inventory, prepayments, capital acquisition, BWC refunds, debt service and property tax revenue unavailable for appropriation. The reserve for property taxes unavailable for appropriation represents taxes recognized as revenue under GAAP but not available for appropriation under state statute.

L. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary fund. For the District, these revenues are charges for services for the employee self-insurance program. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund.

M. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

N. Prepayments

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These items are reported as assets on the balance sheet using the consumption method. A current asset for the prepaid amounts is recorded at the time of the purchase and the expenditure/expense is reported in the year in which services are consumed.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

O. Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

P. Restricted Assets

Restricted assets in the general fund represent cash and cash equivalents set-aside to establish a textbook reserve and capital acquisition reserve. These reserves are required by state statute. A schedule of statutory reserves is presented in Note 17.

Q. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary fund. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the basic financial statements.

R. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board of Education and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during fiscal year 2005.

NOTE 3 - ACCOUNTABILITY & COMPLIANCE

A. Change in Accounting Principles

For fiscal year 2005, the District has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" and GASB Technical Bulletin 2004-2, "Recognition of Pension and Other Postemployment Benefit Expenditures/Expenses and Liabilities by Cost-Sharing Employers".

GASB Statement No. 40 establishes and modified disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk) and interest rate risk. This statement also establishes and modified disclosure requirements for custodial credit risk on deposits.

GASB Technical Bulletin No. 2004-2 addresses the amount that should be recognized as expenditure/expense and as a liability each period by employers participating in a cost-sharing multiple-employer pension and other postemployment benefit (OPEB) plans.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY & COMPLIANCE - (Continued)

The implementation of GASB Statement No. 40 did not have an effect on the financial statements of the District, however additional note disclosure can be found in Note 4. The implementation of GASB Technical Bulletin No. 2004-2 had the following effect on the fund balances of the major and non-major funds of the District as they were previously reported as of June 30, 2004:

	<u>General</u>	Classroom <u>Facilities</u>	<u>Nonmajor</u>	<u>Total</u>
Fund Balances, June 30, 2004	\$ (183,176)	\$ 212,522	\$ 386,834	\$ 416,180
GASB Technical Bulletin No. 2004-2	<u>(45,760)</u>	<u>-</u>	<u>(9,897)</u>	<u>(55,657)</u>
Restated Fund Balance, June 30, 2004	<u>\$ (228,936)</u>	<u>\$ 212,522</u>	<u>\$ 376,937</u>	<u>\$ 360,523</u>

B. Deficit Fund Balances

Fund balances at June 30, 2005 included the following individual fund deficits:

	<u>Deficit</u>
<u>Major Fund</u>	
General	\$ 13,207
<u>Nonmajor Funds</u>	
DPIA	9,925
Title I	45,630
Drug Free School Grant	197

These funds complied with Ohio state law, which does not permit a cash basis deficit at year-end. The general fund is liable for any deficits in these funds and provides transfers when cash is required, not when accruals occur. The deficit fund balances are the result of adjustments for accrued liabilities.

C. Compliance

Ohio Revised Code Section 5705.39 prohibits a political subdivision from making a fund appropriation in excess of the total estimated revenue available for expenditure from that fund as certified by the budget commission on the Amended Certificate of Estimated Resources.

Appropriations exceeded the amount certified as available by the budget commission in the following funds:

<u>Fund</u>	<u>Estimated Resources</u>	<u>Appropriations</u>	<u>Amount of Variance</u>	<u>Percent of Variance</u>
Title II	\$ -	\$ 132	\$ (132)	(100%)
Food Service	331,727	408,900	(77,173)	(23%)

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 3 - ACCOUNTABILITY & COMPLIANCE - (Continued)

Ohio Revised Code Section 5705.41(B) prohibits a subdivision from making expenditure unless it has been property appropriated. The following funds had disbursements which exceeded appropriations:

<u>Fund</u>	<u>Appropriations</u>	<u>Disbursements</u>	<u>Amount of Variance</u>	<u>Percent of Variance</u>
Public School Support	\$ 14,293	\$ 27,683	\$ (13,390)	(94%)
District Managed Student Activity	35,583	51,626	(16,043)	(45%)
Management Information System	6,900	9,735	(2,835)	(41%)
Entry Year Programs	-	1,100	(1,100)	(100%)
Data Communications	12,874	18,874	(6,000)	(47%)
School Net Professional Development	4,784	5,491	(707)	(15%)
Student Intervention	4,000	23,085	(19,085)	(400%)

NOTE 4 - DEPOSITS AND INVESTMENTS

State statutes classify monies held by the District into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the District treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that the Board of Education has identified as not required for use within the current five year period of designation of depositories. Inactive deposits must either be evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Interim deposits are deposits of interim monies. Interim moneys are those monies which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts.

Protection of District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC), by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the Treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Interim monies to be deposited or invested in the following securities:

1. United States Treasury Notes, Bills, Bonds, or any other obligation or security issued by the United States Treasury or any other obligation guaranteed as to principal and interest by the United States;
2. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Federal Home Loan Mortgage Corporation, Government National Mortgage Association, and Student Loan Marketing Association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
3. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;
4. Bonds and other obligations of the State of Ohio;
5. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
6. The State Treasurer's investment pool (STAR Ohio);
7. Certain banker's acceptance and commercial paper notes for a period not to exceed one hundred eighty days from the purchase date in an amount not to exceed twenty-five percent of the interim monies available for investment at any one time: and,
8. Under limited circumstances, corporate debt interests rated in either of the two highest classifications by at least two nationally recognized rating agencies.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the District, and must be purchased with the expectation that it will be held to maturity. Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the Treasurer or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

A. Cash with Fiscal Agent

The District is self-insured through a fiscal agent. The money held by the fiscal agent cannot be identified as an investment or deposit, since it is held in a pool made up of numerous participants. The amount held by the fiscal agent at June 30, 2005, was \$71,836.

B. Cash in Segregated Accounts

The District receives funds from the State for the renovation and construction of its facilities. These funds are not a part of the District's pooled cash. The amount of funds in segregated accounts at June 30, 2005, was \$355. Of the segregated cash balance; \$355 was covered by federal depository insurance; and as defined by GASB although it was secured by collateral held by third party trustees, pursuant to section 135.181 Ohio Revised Code, in collateralized pools securing all public funds on deposit with specific depository institutions; these securities not being in the name of the District. Although all state statutory requirements for the deposit of money had been followed, non-compliance with federal requirements would potentially subject the District to a successful claim by the FDIC.

C. Deposits with Financial Institutions

At June 30, 2005, the carrying amount of all District deposits was \$56,733, exclusive of the \$1,141,514 repurchase agreement included in investments below. Based on the criteria described in GASB Statement No. 40, "Deposits and Investment Risk Disclosures", as of June 30, 2005, the entire amount of the District's bank balance of \$81,643 was covered by Federal Deposit Insurance Corporation.

Custodial credit risk is the risk that, in the event of bank failure, the District's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the District.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

D. Investments

As of June 30, 2005, the District had the following investments and maturities:

<u>Investment type</u>	<u>Balance at Fair Value</u>	<u>Investment Maturities 6 months or less</u>
Repurchase Agreement	\$ 1,141,514	\$ 1,141,514
STAR Ohio	<u>105,024</u>	<u>105,024</u>
	<u>\$ 1,246,538</u>	<u>\$ 1,246,538</u>

Interest Rate Risk: As a means of limiting its exposure to fair value losses arising from rising interest rates and according to state law, the District's investment policy limits investment portfolio maturities to five years or less.

Custodial Credit Risk: For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Of the District's investment in repurchase agreements, the entire balance is collateralized by underlying securities pledged by the investment company's counterparty, not in the name of the District.

Credit Risk: The District's investments, except for the repurchase agreement as discussed above and STAR Ohio, were rated AAA and Aaa by Standard & Poor's and Moody's Investor Services, respectively. Standard & Poor's has assigned STAR Ohio an AAAM money market rating.

Concentration of Credit Risk: The District places no limit on the amount that may be invested in any one issuer. The following table includes the percentage of each investment type held by the District at June 30, 2005:

<u>Investment type</u>	<u>Fair Value</u>	<u>% of Total</u>
Repurchase Agreement	\$ 1,141,514	91.57%
STAR Ohio	<u>105,024</u>	<u>8.43%</u>
	<u>\$ 1,246,538</u>	<u>100.00%</u>

E. Reconciliation of Cash and Investment to the Statement of Net Assets

The following is a reconciliation of cash and investments as reported in the footnote above to cash and investments as reported on the statement of net assets as of June 30, 2005:

<u>Cash and Investments per footnote</u>	
Carrying amount of deposits	\$ 56,733
Investments	1,246,538
Cash with fiscal agent	71,836
Cash in segregated accounts	<u>355</u>
Total	<u>\$ 1,375,462</u>

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 4 - DEPOSITS AND INVESTMENTS - (Continued)

<u>Cash and investments per Statement of Net Assets</u>	
Governmental activities	\$ 1,352,758
Agency funds	<u>22,704</u>
Total	<u>\$ 1,375,462</u>

NOTE 5 - INTERFUND TRANSACTIONS

- A. Interfund balances at June 30, 2005 as reported on the fund statements consist of the following individual interfund loans receivable and payable.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental funds	\$ 21,442

The primary purpose of the interfund balances is to cover costs in specific funds where revenues were not received by June 30. These interfund balances will be repaid once the anticipated revenues are received. All interfund balances are expected to be repaid within one year.

Interfund balances between governmental funds are eliminated on the government-wide financial statements; therefore no internal balances at June 30, 2005 are reported on the Statement of Net Assets.

- B. Interfund transfers for the year ended June 30, 2005, consisted of the following, as reported on the fund financial statements:

Transfers to Major General Fund from:		
Nonmajor Governmental Funds		\$ 1
Transfers to Nonmajor Governmental funds from:		
General Fund		<u>60,000</u>
Total transfers		<u>\$ 60,001</u>

NOTE 6 - PROPERTY TAXES

Property taxes are levied and assessed on a calendar year basis while the District fiscal year runs from July through June. First half tax collections are received by the District in the second half of the fiscal year. Second half tax distributions occur in the first half of the following fiscal year.

Property taxes include amounts levied against all real, public utility and tangible personal property (used in business) located in the District. Real property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Real property taxes received in calendar year 2005 were levied after April 1, 2004, on the assessed value listed as of January 1, 2004, the lien date. Assessed values for real property taxes are established by state law at thirty-five percent of appraised market value. Real property taxes are payable annually or semi-annually. If paid annually, payment is due December 31; if paid semi-annually, the first payment is due December 31 with the remainder payable by June 20. Under certain circumstances, state statute permits alternate payment dates to be established.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 - PROPERTY TAXES - (Continued)

Public utility property tax revenue received in calendar 2005 represents collections of calendar year 2004 taxes. Public utility real and tangible personal property taxes received in calendar year 2005 became a lien December 31, 2003, were levied after April 1, 2004 and are collected in 2005 with real property taxes. Public utility real property is assessed at thirty-five percent of true value; public utility tangible personal property currently is assessed at varying percentages of true value.

Tangible personal property tax revenue received during calendar 2005 (other than public utility property) represents the collection of 2005 taxes. Tangible personal property taxes received in calendar year 2005 were levied after April 1, 2004, on the value as of December 31, 2003. Tangible personal property is currently assessed at twenty-five percent of true value for capital assets and twenty-four percent of true value for inventory. Payments by multi-county taxpayers are due September 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due April 30; if paid semi-annually, the first payment is due April 30, with the remainder payable by September 20. Tangible personal property taxes paid by April 30 are usually received by the District prior to June 30.

The District receives property taxes from Columbiana, Carroll and Jefferson Counties. The County Auditors periodically advance to the District its portion of the taxes collected. Second-half real property tax payments collected by the County by June 30, 2005, are available to finance fiscal year 2005 operations. The amount available to be advanced can vary based on the date tax bills are sent.

Accrued property taxes receivable includes real property, public utility property and tangible personal property taxes which are measurable as of June 30, 2005 and for which there is an enforceable legal claim. Although total property tax collections for the next fiscal year are measurable, only the amount of real property taxes available as an advance at June 30 was levied to finance current fiscal year operations and is reported as revenue at fiscal year-end. The portion of the receivable not levied to finance current fiscal year operations is offset by a credit to deferred revenue.

The amount available as an advance at June 30, 2005 was \$50,903 in the general fund, \$8,859 in the debt service fund and \$963 in the permanent improvement fund. This amount has been recorded as revenue. The amount available as an advance at June 30, 2004 was \$45,860 in the general fund, \$7,558 in the debt service fund and \$924 in the permanent improvement fund.

On a full accrual basis, collectible delinquent property taxes have been recorded as a receivable and revenue, while on a modified accrual basis the revenue has been deferred.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 6 - PROPERTY TAXES - (Continued)

The assessed values upon which the fiscal year 2005 taxes were collected are:

	2004 Second Half Collections		2005 First Half Collections	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Agricultural/residential and other real estate	\$ 59,061,630	85.82	\$ 59,061,630	85.82
Public utility personal	6,541,960	9.51	6,541,960	9.51
Tangible personal property	<u>3,223,210</u>	<u>4.67</u>	<u>3,223,210</u>	<u>4.67</u>
Total	<u>\$ 68,826,800</u>	<u>100.00</u>	<u>\$ 68,826,800</u>	<u>100.00</u>
Tax rate per \$1,000 of assessed valuation:				
Operations	\$ 38.64		\$ 38.64	
Debt Service	3.71		3.71	
Permanent Improvements	0.50		0.50	

NOTE 7 - RECEIVABLES

Receivables at June 30, 2005 consisted of taxes, accounts (billings for user charged services and student fees), and intergovernmental grants and entitlements. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of state programs and the current year guarantee of federal funds. A summary of the principal items of receivables reported on the Statement of Net Assets follows:

Governmental Activities:

Taxes	\$ 1,775,891
Accounts	996
Intergovernmental	<u>3,601,020</u>
Total	<u>\$ 5,377,907</u>

Receivables have been disaggregated on the face of the basic financial statements. All receivables are expected to be collected within the subsequent year.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 8 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance 06/30/04</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 06/30/05</u>
Governmental Activities				
<i>Capital assets, not being depreciated:</i>				
Land	\$ 84,670	\$ -	\$ -	\$ 84,670
Total capital assets, not being depreciated	<u>84,670</u>	<u>-</u>	<u>-</u>	<u>84,670</u>
<i>Capital assets, being depreciated:</i>				
Land improvements	715,162	-	-	715,162
Buildings and improvements	15,983,711	-	-	15,983,711
Infrastructure	139,856	-	-	139,856
Furniture and equipment	389,095	-	-	389,095
Vehicles	748,938	-	-	748,938
Total capital assets, being depreciated	<u>17,976,762</u>	<u>-</u>	<u>-</u>	<u>17,976,762</u>
<i>Less: accumulated depreciation</i>				
Land improvements	(67,060)	(37,395)	-	(104,455)
Buildings and improvements	(1,433,950)	(528,707)	-	(1,962,657)
Infrastructure	(3,496)	(3,496)	-	(6,992)
Furniture and equipment	(137,775)	(33,450)	-	(171,225)
Vehicles	(438,918)	(68,763)	-	(507,681)
Total accumulated depreciation	<u>(2,081,199)</u>	<u>(671,811)</u>	<u>-</u>	<u>(2,753,010)</u>
Governmental activities capital assets, net	<u>\$ 15,980,233</u>	<u>\$ (671,811)</u>	<u>\$ -</u>	<u>\$ 15,308,422</u>

Depreciation expense was charged to governmental functions as follows:

Instruction:

Regular \$ 560,070

Support Services:

Instructional staff 10,721

Board of education 259

Administration 9,066

Operations and maintenance 10,898

Pupil transportation 70,573

Extracurricular activities 6,844

Food service operations 3,380

Total depreciation expense \$ 671,811

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 9 - CAPITAL LEASES - LESSEE DISCLOSURE

In fiscal year 2005, the District entered into a capital lease for the acquisition of copiers. This lease meets the criteria of a capital lease as defined by FASB Statement No. 13, “Accounting for Leases”, which defines a capital lease generally as one which transfers the benefits and risks of ownership to the lessee at the conclusion of the lease term. At inception, the lease was accounted for as an other financing source and a capital outlay expenditure in the general fund. Capital lease payments have been reclassified and shown as debt service expenditures in the general fund. These expenditures will be reflected as function expenditures on a budgetary basis. The general capital assets acquired by this capital lease have been capitalized in the governmental activities on the statement of net assets in the amount of \$44,022, which is equal to the present value of the future minimum lease payments as of the date of their inception. A corresponding liability has been recorded in the governmental activities on the statement of net assets. Principal payments made during fiscal year 2005 totaled \$4,927.

The following is a schedule of the future minimum lease payments required under the capital lease and the present value of the future minimum lease payments as of June 30, 2005.

<u>Fiscal Year Ending June 30.</u>	<u>Amount</u>
2006	\$ 10,705
2007	10,706
2008	10,705
2009	10,706
2010	<u>3,569</u>
Total minimum lease payments	46,391
Less amount representing interest	<u>(7,296)</u>
Total	<u>\$ 39,095</u>

NOTE 10 - LONG-TERM OBLIGATIONS

- A. On June 1, 2001, the District issued general obligation bonds to provide funds for renovations and additions to the existing junior-senior high school to house grades K-12, abandonment of the primary and intermediate school buildings, and demolition of the modular classrooms at the primary and junior-senior high school buildings (hereinafter called “Construction Project”). These bonds are general obligations of the District for which the full faith and credit of the District is pledged for repayment. Accordingly, such unmatured obligations of the District are accounted for on the statement of net assets. Payments of principal and interest relating to this bond are recorded as an expenditure in the debt service fund. The source of payment is derived from a current 3.71 mills bonded debt tax levy.

These bonds represent the amount of the Construction Project that the District itself was required to finance, in accordance with the terms of a facilities grant from the Ohio School Facilities Commission (OSFC). OSFC will make quarterly disbursements to the District as the project is completed. As of June 30, 2005, the total estimated cost of the Construction Project is \$14,756,003, of which OSFC paid approximately \$11,201,458.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

In conjunction with the 3.71 mills which support the bond issue, the District also passed in fiscal 2001 a .5 mill levy to ultimately fund the maintenance costs of the new facilities. Tax revenue from this levy has been reported in the capital projects funds.

This issue is comprised of both current interest bonds, par value \$3,057,000, and capital appreciation bonds, par value \$230,000. The interest rates on the current interest bonds range from 4.00% to 5.25%. The capital appreciation bonds mature on December 1, 2009 (effective interest 22.20%) and December 1, 2010 (effective interest 22.20%) at a redemption price equal to 100% of the principal, plus accrued interest to the redemption date. The present value (as of issue date) reported on the statement of net assets at June 30, 2005 was \$35,000. As of June 30, 2005, \$45,714 of accreted interest on the capital appreciation bonds has been included in long-term liabilities on the statement of net assets.

Interest payments on the current interest bonds are due on June 1 and December 1 of each year. The final maturity stated in the issue is December 1, 2024.

The following is a schedule of activity for fiscal 2005 on the 2001 series general obligation bonds:

	Balance Outstanding <u>06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/05</u>	Amounts Due in <u>One Year</u>
General obligation bonds:					
Current interest bonds	\$ 2,915,000	\$ -	\$ (80,000)	\$ 2,835,000	\$ 85,000
Capital appreciation bonds	35,000	-	-	35,000	-
Accreted interest bonds	<u>30,392</u>	<u>15,322</u>	<u>-</u>	<u>45,714</u>	<u>-</u>
Total G.O. bonds	<u>\$ 2,980,392</u>	<u>\$ 15,322</u>	<u>\$ (80,000)</u>	<u>\$ 2,915,714</u>	<u>\$ 85,000</u>

The following is a summary of the future debt service requirements to maturity for the 2001 series general obligation bonds:

Fiscal Year Ending June 30	Current Interest Bonds			Capital Appreciation Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2006	\$ 85,000	\$ 142,857	\$ 227,857	\$ -	\$ -	\$ -
2007	90,000	139,356	229,356	-	-	-
2008	95,000	135,609	230,609	-	-	-
2009	100,000	131,536	231,536	-	-	-
2010	-	129,411	129,411	115,000	-	115,000
2011-2015	535,000	593,114	1,128,114	115,000	-	115,000
2016-2020	840,000	400,835	1,240,835	-	-	-
2021-2025	<u>1,090,000</u>	<u>149,622</u>	<u>1,239,622</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 2,835,000</u>	<u>\$ 1,822,340</u>	<u>\$ 4,657,340</u>	<u>\$ 230,000</u>	<u>\$ -</u>	<u>\$ 230,000</u>

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 10 - LONG-TERM OBLIGATIONS - (Continued)

- B.** During the fiscal year 2005, the following changes occurred in governmental activities long-term obligations:

	Balance Outstanding <u>06/30/04</u>	<u>Additions</u>	<u>Reductions</u>	Balance Outstanding <u>06/30/05</u>	Amounts Due in <u>One Year</u>
Governmental Activities:					
Compensated absences payable	\$ 433,628	\$ 13,937	\$ (14,119)	\$ 433,446	\$ 29,950
Capital lease obligation	-	44,022	(4,927)	39,095	7,862
General obligation bonds payable	<u>2,980,392</u>	<u>15,322</u>	<u>(80,000)</u>	<u>2,915,714</u>	<u>85,000</u>
Total long-term obligations, governmental activities	<u>\$ 3,414,020</u>	<u>\$ 73,281</u>	<u>\$ (99,046)</u>	<u>\$ 3,388,255</u>	<u>\$ 122,812</u>

C. Legal Debt Margin

The Ohio Revised Code provides that voted net general obligation debt of the District shall never exceed 9% of the total assessed valuation of the District. The code further provides that unvoted indebtedness shall not exceed 1/10 of 1% of the property valuation of the District.

The effects of these debt limitations at June 30, 2005 are a voted debt margin of \$3,546,786 and an unvoted debt margin of \$68,827.

NOTE 11 - OTHER EMPLOYEE BENEFITS

A. Compensated Absences

The criteria for determining vacation and sick leave benefits are derived from negotiated agreements and state laws. Classified employees earn 5 to 25 days of vacation per year, depending upon length of service. Accumulated unused vacation time is paid to classified employees upon termination of employment.

Teachers and administrators do not earn vacation time. Teachers, administrators and classified employees earn sick leave at the rate of one and one-fourth days per month. Sick leave may be accumulated up to the number of annual work days per contract plus 90 days, not to exceed 272 days for certified employees and 270 for non-certified employees. Upon retirement, certified employees are paid for one-fourth of their total sick leave accumulation, up to their maximum accumulation, and classified employees are paid for one-fourth of the first 120 days of sick leave accumulation and for 20 percent of their sick leave accumulation above 121 days, up to their maximum accumulation.

B. Life Insurance

The District provides life insurance and accidental death and dismemberment insurance to most employees through Safeco. Each full-time employee receives \$20,000 in coverage.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 12 - RISK MANAGEMENT

A. Comprehensive

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. For fiscal year 2005, the District contracted with Nationwide Insurance for property, boiler and inland marine insurance. This risk policy has a \$1,000 deductible.

General liability is protected by The Nationwide Insurance Company with a \$1,000,000 single occurrence limit and \$5,000,000 aggregate and no deductible. Vehicles, including school buses, are covered by The Nationwide Insurance Company and hold a \$1,000 deductible for comprehensive and collision. There is a \$1,000,000 combined single limit of liability.

Settled claims have not exceeded this commercial coverage in any of the past three years. There has been no significant reduction in coverage from prior year.

B. Workers' Compensation Plan

The District participates in the Ohio Association of School Business (OASB) Officials Workers' Compensation Group Rating Plan, an insurance purchasing pool (Note 2.A.). The intent of the Plan is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the Plan. Participants in the Plan are placed on tiers according to their loss history. Participants with low loss histories are rewarded with greater savings than participants with higher loss histories. Each participant pays its workers' compensation premium to the state based on the rate for its Plan tier rather than its individual rate. Participation in the Plan is limited to school districts that can meet the Plan's selection criteria. The firm of Sheakley UniService, Inc. provides administrative, cost control, assistance with safety programs, and actuarial services to the Plan.

C. Employee Health and Dental

Medical/surgical and dental insurance is offered to employees through a self-insurance internal service fund. The District is a member of a claims servicing pool, consisting of seven school districts within the County, in which monthly premiums are paid to the fiscal agent who in turn pays the claims on the District's behalf. This plan provides a medical/surgical plan with a \$100 family and \$50 single deductible for certificated employees and a \$200 family and \$100 single deductible for classified employees. A third party administrator, Professional Risk Management, reviews all claims, which are then paid by the District. The District purchases stop-loss coverage of \$75,000 per employee. The District pays into the self-insurance internal service fund \$879.55 for family coverage or \$366.96 for individual coverage per month, which represents the entire premium required. The premium is paid by the fund that pays the salary for the employee and is based on historical cost information. Dental coverage is also provided on a self-insured basis. Premiums for this coverage are \$33.35 monthly for family coverage and \$13.52 monthly for single coverage. Vision coverage is also provided on a self-insured basis. Premiums for this coverage are \$5.10 monthly for family coverage and \$2.52 for single coverage. The District is responsible for payment of all claim amounts.

The District also provides prescription drug insurance to its employees through a self-insured program. This plan utilizes a \$5 brand/\$0 generic prescription deductible.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 12 - RISK MANAGEMENT - (Continued)

The third party administrator, Professional Risk Management, reviews the claims, which are then paid by the District. The maximum amount any employee will contribute for his/her health care package is \$25 family coverage or \$10 single coverage for classified employees, and \$50 family coverage or \$20 single coverage for certificated employees.

The liability for unpaid claims of \$77,393 reported in the internal service fund at June 30, 2005, is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred, but not reported claims, be accrued at the estimated ultimate cost of settling the claims. The claims liability is based on an estimate supplied by the District's third party administrator. Changes in the fund's claims liability for the current and past fiscal year are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2005	\$ 80,910	\$ 1,173,655	\$ (1,177,172)	\$ 77,393
2004	79,048	1,103,781	(1,101,919)	80,910

NOTE 13 - DEFINED BENEFIT PENSION PLANS

A. School Employees Retirement System

The District contributes to the School Employees Retirement System of Ohio (SERS), a cost-sharing, multiple-employer defined benefit pension plan. SERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by State Statute Chapter 3309 of the Ohio Revised Code. SERS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the School Employees Retirement System, 300 East Broad Street, Suite 100, Columbus, Ohio 43215-3476, or by calling (614) 222-5853.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal year 2005, 10.57% of annual covered salary was the portion used to fund pension obligations. For fiscal year 2004, 9.09% of annual covered salary was the portion used to fund pension obligations. The contribution requirements of plan members and employers are established and may be amended, up to a statutory maximum amount, by the SERS' Retirement Board. The adequacy of the contribution rates is determined annually. The District's required contributions to SERS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$116,874, \$119,551, and \$119,264, respectively; 46.23% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$62,844 represents the unpaid contribution for fiscal year 2005.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

B. State Teachers Retirement System

The District contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple-employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides retirement and disability benefits, annual cost-of-living adjustments, and death and survivor benefits to plan members and beneficiaries. Authority to establish and amend benefits is provided by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available, stand-alone financial report that includes financial statements and required supplementary information. The report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771, or by calling (614) 227-4090.

New members have a choice of three retirement plans, a Defined Benefit (DB) Plan, a Defined Contribution (DC) Plan and a Combined Plan. The DB plan offers an annual retirement allowance based on final average salary times a percentage that varies based on years of service, or an allowance based on member contributions and earned interest matched by STRS Ohio funds times an actuarially determined annuity factor. The DC Plan allows members to place all their member contributions and employer contributions equal to 10.5% of earned compensation into an investment account. Investment decisions are made by the member. A member is eligible to receive a retirement benefit at age 50 and termination of employment. The Combined Plan offers features of both the DC Plan and the DB Plan. In the Combined Plan, member contributions are invested by the member, and employer contributions are used to fund the defined benefit payment at a reduced level from the regular DB Plan. DC and Combined Plan members will transfer to the Defined Benefit Plan during their fifth year of membership unless they permanently select the DC or Combined Plan. Benefits are established by Chapter 3307 of the Ohio Revised Code.

A DB or Combined Plan member with five or more years credited service who becomes disabled may qualify for a disability benefit. Eligible spouses and dependents of these active members who die before retirement may qualify for survivor benefits. Members in the DC Plan who become disabled are entitled only to their account balance. If a member dies before retirement benefits begin, the member's designated beneficiary is entitled to receive the member's account balance.

Plan members are required to contribute 10% of their annual covered salary and the District is required to contribute at an actuarially determined rate. The current District rate is 14% of annual covered payroll. A portion of the District's contribution is used to fund pension obligations with the remainder being used to fund health care benefits. For fiscal years 2005 and 2004, 13% of annual covered salary was the portion used to fund pension obligations. Contribution rates are established by the State Teachers Retirement Board, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. Chapter 3307 of the Ohio Revised Code provides statutory authority for member and employee contributions. The District's required contributions to STRS for the fiscal years ended June 30, 2005, 2004, and 2003 were \$400,704, \$408,307, and \$397,625, respectively; 83.51% has been contributed for fiscal year 2005 and 100% for the fiscal years 2004 and 2003. \$66,060 represents the unpaid contribution for fiscal year 2005. Contributions to the DC and Combined Plans for fiscal 2005 were \$2,900 made by the District and \$2,900 made by plan members.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 13 - DEFINED BENEFIT PENSION PLANS - (Continued)

C. Social Security System

Effective July 1, 1991, all employees not otherwise covered by SERS or STRS have an option to choose Social Security or SERS/STRS. As of June 30, 2005, certain members of the Board of Education have elected Social Security. The District's liability is 6.20 percent of wages paid.

NOTE 14 - POSTEMPLOYMENT BENEFITS

The District provides comprehensive health care benefits to retired teachers and their dependents through STRS, and to retired non-certified employees and their dependents through SERS. Benefits include hospitalization, physicians' fees, prescription drugs, and partial reimbursement of monthly Medicare Part B premiums. Benefit provisions and the obligations to contribute are established by STRS and SERS based on authority granted by state statute. Both STRS and SERS are funded on a pay-as-you-go-basis.

The State Teachers Retirement Board has statutory authority over how much, if any, of the health care costs will be absorbed by STRS. Most benefit recipients pay a portion of the health care cost in the form of a monthly premium. By Ohio law, the cost of coverage paid from STRS funds shall be included in the employer contribution rate, currently 14% of covered payroll. For this fiscal year, the State Teachers Retirement Board allocated employer contributions equal to 1% of covered payroll to the Health Care Reserve fund. For the District, this amount equaled \$28,622 during fiscal 2005.

STRS pays health care benefits from the Health Care Reserve fund. The balance in the Health Care Reserve fund was \$3.1 billion at June 30, 2004 (the latest information available). For the fiscal year ended June 30, 2004 (the latest information available), net health care costs paid by STRS were \$268.739 million and STRS had 111,853 eligible benefit recipients.

For SERS, coverage is made available to service retirees with 10 or more years of qualifying service credit, and disability and survivor benefit recipients. Effective January 1, 2004, all retirees and beneficiaries are required to pay a portion of their health care premium. The portion is based on years of service, Medicare eligibility and retirement status. A safety net is in place for retirees whose household income falls below federal poverty levels. Premiums are reduced by 50% for those who apply.

For this fiscal year, employer contributions to fund health care benefits were 3.43% of covered payroll. In addition, SERS levies a surcharge to fund health care benefits equal to 14% of the difference between a minimum pay and the member's pay, pro-rated for partial service credit. For fiscal year 2005, the minimum pay has been established at \$27,400. The surcharge, added to the unallocated portion of the 14% employer contribution rate, provides for maintenance of the asset target level for the health care fund.

The target level for the health care reserve is 150% of annual health care expenses, before premium deduction. Gross expenses for health care at June 30, 2004 (the latest information available) were \$223.444 million and the target level was \$335.2 million. At June 30, 2004 (the latest information available), SERS had net assets available for payment of health care benefits of \$300.8 million and SERS had approximately 62,000 participants receiving health care benefits. For the District, the amount to fund health care benefits, including surcharge, equaled \$40,875 during the 2005 fiscal year.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 15 - BUDGETARY BASIS OF ACCOUNTING

While reporting financial position, results of operations, and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements.

The Statement of Revenue, Expenditures, and Changes in Fund Balance - Budget and Actual (Non-GAAP Budgetary Basis) presented for the general fund is presented on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the GAAP basis are that:

- (a) Revenues and other financing sources are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis);
- (b) Expenditures and other financing uses are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis);
- (c) In order to determine compliance with Ohio law, and to reserve that portion of the applicable appropriation, total outstanding encumbrances (budget basis) are recorded as the equivalent of an expenditure, as opposed to a reservation of fund balance for that portion of outstanding encumbrances not already recognized as an account payable (GAAP basis).

The adjustments necessary to convert the results of operations for the year on the budget basis to the GAAP basis for the general fund is as follows:

Net Change in Fund Balance

	<u>General Fund</u>
Budget basis	\$ 93,574
Net adjustment for revenue accruals	24,009
Net adjustment for expenditure accruals	38,300
Net adjustment for other financing sources and uses	43,137
Adjustment for encumbrances	16,709
GAAP basis	\$ 215,729

NOTE 16 - CONTINGENCIES

A. Grants

The District receives significant financial assistance from numerous federal, state and local agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However in the opinion of management, any such disallowed claims will not have a material effect on the financial position of the District.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY, OHIO**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

NOTE 16 - CONTINGENCIES - (Continued)

B. Litigation

The District is involved in no material litigation as either plaintiff or defendant.

C. State School Funding Decision

On December 11, 2002, the Ohio Supreme Court issued its latest opinion regarding the state's school funding plan. The decision reaffirmed earlier decisions that Ohio's current school funding plan is unconstitutional.

The Supreme Court relinquished jurisdiction over the case and directed "...the Ohio General Assembly to enact a school funding scheme that is thorough and efficient...". The District is currently unable to determine what effect, if any, this decision will have on its future state funding and its financial operations.

NOTE 17 - STATUTORY RESERVES

The District is required by state law to set-aside certain general fund revenue amounts, as defined by statute, into various reserves. These reserves are calculated and presented on a cash basis. During the fiscal year ended June 30, 2005, the reserve activity was as follows:

	<u>Textbooks</u>	<u>Capital Acquisition</u>	<u>BWC Refunds</u>
Set-aside cash balance as of June 30, 2004	\$ (352,069)	\$ -	\$ 24,797
Current year set-aside requirement	131,407	131,407	-
Qualifying disbursements	<u>(103,142)</u>	<u>(12,946)</u>	<u>-</u>
Total	<u>\$ (323,804)</u>	<u>\$ 118,461</u>	<u>\$ 24,797</u>
Cash balance carried forward to FY 2006	<u>\$ (323,804)</u>	<u>\$ 118,461</u>	<u>\$ 24,797</u>
A schedule of the restricted assets at June 30, 2005 follows:			
Amounts restricted for BWC refund	\$ 24,797		
Amounts restricted for capital acquisition	<u>118,461</u>		
Total restricted assets	<u>\$ 143,258</u>		

The District had qualifying disbursements during the year that reduced the set-aside amount below zero for the textbooks reserve. This amount may be used to reduce the set-aside requirement for future years. The negative amount is therefore presented as being carried forward to the next fiscal year.

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SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY

FEDERAL AWARDS EXPENDITURE SCHEDULE
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Receipts	Non-Cash Receipts	Expenditures	Non-Cash Expenditures
U.S. Department of Agriculture						
<i>Passed Through Ohio Department of Education:</i>						
Nutrition Cluster:						
Food Distribution Program	03-PU	10.550		\$43,130		\$43,130
National School Breakfast Program	05-PU	10.553	\$59,863		\$59,863	
National School Lunch Program	LL-P4	10.555	179,571		179,571	
Summer Food Service Program for Children	N/A	10.559	495		495	
Total U.S. Department of Agriculture - Nutrition Cluster			<u>239,929</u>	<u>43,130</u>	<u>239,929</u>	<u>43,130</u>
U.S. Department of Education						
<i>Passed Through Ohio Department of Education:</i>						
Grants to Local Educational Agencies (ESEA Title I)	C1-S1-2003 C1-S1-2004 C1-S1-2005	84.010	12,230		12,611 5,042	
Total ESEA Title I			<u>290,846</u> <u>303,076</u>		<u>289,693</u> <u>307,346</u>	
Drug Free School Grant	DR-S1-2001 DR-S1-2003 DR-S1-2004 DR-S1-2005	84.186			16 15 714	
Total Drug Free School Grant			<u>4,500</u> <u>4,623</u>		<u>5,838</u> <u>6,583</u>	
Innovative Educational Program Strategies	C2-S1-2004 C2-S1-2005	84.298	653		1,083	
Total Innovative Educational Program Strategies			<u>3,132</u> <u>3,785</u>		<u>2,872</u> <u>3,955</u>	
Education Technology Grant	TJ-S1-2004	84.318			1,221	
Total Education Technology Grant			<u>5,025</u> <u>5,025</u>		<u>5,139</u> <u>6,360</u>	
Rural Education Grant	RU-S1-2005	84.358	4,035		3,963	
Title II A Improving Teacher Quality Program	TR-S1-2002 TR-S1-2004 TR-S1-2005	84.367			132	
			21,354 40,417		14,288 41,860	
			<u>61,771</u>		<u>56,280</u>	
Total U.S. Department of Education			<u>382,315</u>		<u>384,487</u>	
Total Federal Awards			<u>\$622,244</u>	<u>\$43,130</u>	<u>\$624,416</u>	<u>\$43,130</u>

The notes to the federal awards expenditure schedule are an integral part of this schedule.

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**NOTES TO THE FEDERAL AWARDS EXPENDITURE SCHEDULE
FISCAL YEAR ENDED JUNE 30, 2005**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Federal Awards Expenditure Schedule (the Schedule) summarizes activity of the District's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - CHILD NUTRITION CLUSTER

Program regulations do not require the District to maintain separate inventory records for purchased food and food received from the U.S. Department of Agriculture. This non-monetary assistance (expenditures) is reported in the Schedule at the fair market value of the commodities received.

Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first.



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

Southern Local School District
Columbiana County
38095 State Route 39 East
Salineville, Ohio 43945

To the Board of Education:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Southern Local School District (the District) as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 9, 2006, wherein we noted that the District implemented Governmental Accounting Standards Board Technical Bulletin 2004-2. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting to determine our auditing procedures in order to express our opinion on the financial statements and not to opine on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts material to the financial statements we audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider material weaknesses. In a separate letter to the District's management dated March 9, 2006, we reported other matters involving internal control over financial reporting we did not deem reportable conditions.

Compliance and Other Matters

As part of reasonably assuring whether the District's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed instances of noncompliance or other matters that we must report under *Government Auditing Standards*, which are described in the accompanying schedule of findings as items 2004-001 and 2004-002. In a separate letter to the District's management dated March 9, 2006, we reported other matters related to noncompliance we deemed immaterial.

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Southern Local School District
Columbiana County
Independent Accountants' Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters
Required by *Government Auditing Standards*
Page 2

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 9, 2006



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Southern Local School District
Columbiana County
38095 State Route 39 East
Salineville, Ohio 43945

To the Board of Education:

Compliance

We have audited the compliance of Southern Local School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement that apply to its major federal program for the year ended June 30, 2005. The summary of auditor's results section of the accompanying schedule of findings identifies the District's major federal program. The District's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to reasonably assure whether noncompliance occurred with the types of compliance requirements referred to above that could directly and materially affect a major federal program. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing other procedures we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the Southern Local School District complied, in all material respects, with the requirements referred to above that apply to its major federal program for the year ended June 30, 2005.

Internal Control Over Compliance

The District's management is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could directly and materially affect a major federal program to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be timely detected by employees when performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

We intend this report solely for the information and use of the audit committee, management, Board of Education, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

March 9, 2006

**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
JUNE 30, 2005**

1. SUMMARY OF AUDITOR'S RESULTS

<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Title I Grants to Local Educational Agencies CFDA # 84.010
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2005-001

Non Compliance Citation

Ohio Revised Code Section 5705.39 prohibits a political subdivision from making a fund appropriation in excess of the total estimated revenue available for expenditure from that fund as certified by the budget commission on the Amended Official Certificates of Estimated Resources.

Appropriations exceeded the amount certified as available by the budget commission in the following funds:

Fund	Total Estimated Resources	Total Appropriations	Amount of Variance
Title II Fund		\$132	(\$132)
Food Service Fund	331,727	408,900	(77,173)

Failure to limit appropriations to the amount certified by the budget commission could result in overspending and negative cash balances. The School District should compare appropriations to estimated resources and if adequate resources are available for additional appropriations, the School District should request an amended certificate of estimated resources from the budget commission. If the resources are not available to cover the appropriations, an amendment to the appropriation resolution should be passed by the Board of Education to reduce the appropriations.

FINDING NUMBER 2005-002

Non Compliance Citation

Ohio Revised Code Section 5705.41(B) prohibits a subdivision from making expenditure unless it has been properly appropriated. The following funds had disbursements which exceeded appropriations:

Fund	Appropriations	Expenditures	Amount of Variance
Public School Support Fund	\$14,293	\$27,683	(\$13,390)
District Managed Student Activity Fund	35,583	51,626	(16,043)
Management Information System Fund	6,900	9,735	(2,835)
Entry Year Programs Fund		1,100	(1,100)
Data Communications Fund	12,874	18,874	(6,000)
School Net Professional Development Fund	4,784	5,491	(707)
Student Intervention Fund	4,000	23,058	(19,058)

The Treasurer should not certify the availability of funds and should deny payment requests exceeding appropriations. The Treasurer may request the Board to approve increased expenditure levels by increasing appropriations and amending estimated resources, if necessary.

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS
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None

SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
OMB CIRCULAR A -133 § .315 (b)
JUNE 30, 2005

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; Explain
2004-001	ORC Section 5705.39 Appropriations exceeded the amount certified as available.	No	Cited again as finding number 2005-001.



**Auditor of State
Betty Montgomery**

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**SOUTHERN LOCAL SCHOOL DISTRICT
COLUMBIANA COUNTY**

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
MAY 4, 2006**